

# PERAC AUDIT REPORT



## Winthrop Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2004 / PERAC 04: 11-098-06



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

HENRY G. BRAUER | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

November 30, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Winthrop Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2001 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

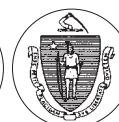
In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Carol Niemira and James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## **Winthrop Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

#### **1. Annual Statement**

Based upon inspection of the Annual Statements filed by the Board for the four year audit period, it was determined that certain line item amounts contained in the Annual Statement did not match the detailed supporting schedules. Variances were found in investment income, and realized and unrealized gains and losses. All cash accounts were not listed in Schedule 1 of the Annual Statements submitted for 2001 to 2003. The Annual Statement does balance to the general ledger.

#### **Recommendation:**

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the system's financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian-provided schedules should be corrected, if needed, and reconciled to the general ledger prior to submission of the Annual Statement. All cash accounts must be listed on Schedule 1.

#### **Board Response:**

The retirement system has adopted the Commission's recommendations regarding the establishment of a review process.

#### **2. Reconciliation of Cash Accounts**

The Town Treasurer has reconciled only one of the Town's four cash accounts on a monthly basis.

#### **Recommendation:**

As custodian of the retirement system funds according to G.L. c. 32, § 23(2)(a), the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Board must ensure that the Treasurer fulfills his obligation as custodian of funds.

Additionally, it is recommended that the Board close Citizen's Bank liquid asset account No. 113565-931-9 which showed no activity during the year 2004 and holds less than \$1,300 on deposit.

#### **Board Response:**

The Town Treasurer is now reconciling all of the retirement system's cash accounts on a monthly basis. However, it should be noted, that the accounts that were not being reconciled had no activity during the year. The Retirement Board chooses to keep the account with Citizen's Bank open.

## **Winthrop Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

#### **3. Annuity Reserve Interest Calculation**

The 2004 Annuity Reserve Fund interest calculation was understated by \$5,638.85. This occurred because retiring members' Annuity Savings Fund amounts were transferred to the Annuity Reserve Fund on December 31, 2004 rather than correctly transferred in the month the member retires.

#### **Recommendation:**

The amount in a retiring member's Annuity Savings Fund account must be transferred to the Annuity Reserve Fund in the month the member retires. An adjusting entry is needed to correct the January 1, 2005 beginning balance by the amount of \$5,638.85 recorded to the Annuity Reserve Fund (credit Annuity Reserve Fund \$5,638.85 and debit Pension Reserve Fund \$5,638.85). The Board should ensure that this corrected Annuity Reserve Fund balance is used as the beginning balance when calculating the current year's (2005) Annuity Reserve Fund interest.

#### **Board Response:**

Retiring members' Annuity Savings Fund is now being transferred to the Annuity Reserve Fund in the month the member retires. An adjusting journal entry will be made to correct the January 1, 2005 beginning balance to the Annuity Reserve Fund in the amount of \$5,638.85 (credit Annuity Reserve Fund \$5,638.85 and debit Pension Reserve Fund \$5,638.85).

#### **4. Members' Deduction Rates**

The auditor sampled 14% of members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is being withheld from members who earn over \$30,000 and were hired after January 1, 1979. The sample yielded a 40% error rate. Eleven members who earned over \$30,000 did not have the additional 2% withheld.

Analysis revealed a group of members whose deductions had been erroneously deposited into an alternate retirement savings plan instead of with the Winthrop Retirement System. The deduction rate of those members who bought back their time was incorrectly calculated as of the time of their buyback instead of their eligible membership date.

Educational incentive compensation was not included in Group 4 members' deductions when a new payroll system was instituted January 1, 2005. The Board has now instructed the payroll department to withhold deductions from such compensation.

#### **Recommendation:**

The Board and the payroll department must correct all errors identified, and the Board must conduct an in-depth review of its membership to ensure all members hired after January 1, 1979 are coded accurately on its records and on the payroll system for the additional 2% deduction. The Board should routinely monitor deductions to ensure compliance with G.L. c. 32, § 22(1)(b) and PERAC MEMO #43/1999. The Board should routinely review payroll codes to ensure that deductions are taken from all regular compensation as defined by 840 CMR 15.03.

## **Winthrop Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

#### **Board Response:**

The payroll departments for the school and town have been notified and all errors have been identified and corrected. Member's records have been reviewed and are coded with the additional 2% for those who earn over \$30,000.00 and hired after January 1, 1979.

The retirement system will routinely review payroll for both the school and town.

#### **5. Retiree Payments**

The auditor sampled retirees to determine if the superannuation calculations are correct and that the payroll agrees with the monthly allowance. One retiree who is also receiving a survivor's superannuation is receiving COLA adjustments on both allowances and neither retiree had been retired for the required amount of time to receive COLA adjustments. The superannuation calculation was done correctly, but the incorrect retirement date was entered into the payroll system for the living retiree. It appears the payroll system also added the COLA to the deceased retiree probably because both checks are to the same name and social security number.

#### **Recommendation:**

The payroll must be corrected immediately to reflect the correct allowances. The Board must take steps to recapture the overpaid amounts. A review procedure must be established to ensure that inputs to the payroll system are accurate.

#### **Board Response:**

The payroll allowance is now correct and the overpaid amount has been recaptured.

#### **6. Board Meeting Minutes and Board Member Attendance**

Board Meeting Minutes were reviewed from 2001 through January 2005. Pages were hand-numbered, blank pages were not marked "Void," and pages without signatures were not initialed.

A review of Board member attendance indicated that one member missed 29% of the Board meetings in 2001; another member missed 25% in 2002, 36% in 2003 and 31% in 2004; and another member missed 43% in 2003 and 31% in 2004, not including meetings in which members participated via conference call.

#### **Recommendation:**

In accordance with G.L. c. 32, § 21(1) the pages of the Minutes must be pre-numbered or initialed by Board members. Pages intentionally left blank should be marked "intentionally left blank." It is also recommended that the Minutes be periodically bound to adequately preserve the long-term integrity of these vital records.

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent or more is considered excessive. It is the Board's responsibility

## **Winthrop Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

to advise members who fail to uphold their duties to the System, and to take appropriate action with such members, when necessary.

#### **Board Response:**

The pages to the Board Meeting Minutes that are blank are now marked “Void” and Board members are initialing pages without signatures. The Minutes will be professionally bound.

#### **Final Determination**

*PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding all findings.*

# Winthrop Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Cash	\$4,964,914	\$2,087,505	\$1,443,709	\$328,209
Short Term Investments	3,911,089	348,183	408,960	460,292
Fixed Income Securities (at book value)	4,312,231	4,573,523	5,751,569	8,197,482
Equities	13,944,937	12,238,811	0	8,125,270
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	0	0	0	0
Pooled International Equity Funds	0	2,529,907	3,035,083	3,044,625
Pooled Global Equity Funds	0	0	6,446,037	1,100,000
Pooled Domestic Fixed Income Funds	0	2,372,289	1,917,813	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	845,283	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	0	0	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	49,485	47,566	71,835	87,606
Accounts Receivable	3,877	13,696	475,942	478,183
Accounts Payable	0	(90)	(95)	(37)
<b>TOTAL</b>	<b><u>\$27,186,532</u></b>	<b><u>\$24,211,390</u></b>	<b><u>\$20,396,135</u></b>	<b><u>\$21,821,630</u></b>
<b>FUND BALANCES</b>				
Annuity Savings Fund	\$6,866,157	\$6,509,166	\$6,571,429	\$6,038,572
Annuity Reserve Fund	2,564,918	2,490,819	2,035,245	2,102,202
Pension Fund	4,860,847	4,733,967	4,757,048	3,850,773
Military Service Fund	0	0	0	0
Expense Fund	0	0	0	0
Pension Reserve Fund	12,944,611	10,477,439	7,032,414	9,830,083
<b>TOTAL</b>	<b><u>\$27,236,532</u></b>	<b><u>\$24,211,390</u></b>	<b><u>\$20,396,135</u></b>	<b><u>\$21,821,630</u></b>



## Winthrop Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (2001)</b>	\$5,676,816	\$2,180,187	\$4,033,869	\$0	\$0	\$10,932,032	<b>\$22,822,904</b>
Receipts	785,381	61,938	1,822,495	0	208,953	(1,102,154)	<b>1,776,613</b>
Interfund Transfers	(174,962)	149,489	25,268	0	0	205	<b>(0)</b>
Disbursements	<u>(248,664)</u>	<u>(289,412)</u>	<u>(2,030,859)</u>	<u>0</u>	<u>(208,953)</u>	<u>0</u>	<b><u>(2,777,887)</u></b>
<b>Ending Balance (2001)</b>	<b>6,038,572</b>	<b>2,102,202</b>	<b>3,850,773</b>	<b>0</b>	<b>0</b>	<b>9,830,083</b>	<b>21,821,630</b>
Receipts	767,857	59,847	2,890,247	0	188,491	(2,797,593)	<b>1,108,850</b>
Interfund Transfers	(144,659)	144,735	0	0	0	(76)	<b>0</b>
Disbursements	<u>(90,341)</u>	<u>(271,539)</u>	<u>(1,983,972)</u>	<u>0</u>	<u>(188,491)</u>	<u>0</u>	<b><u>(2,534,344)</u></b>
<b>Ending Balance (2002)</b>	<b>6,571,429</b>	<b>2,035,245</b>	<b>4,757,048</b>	<b>0</b>	<b>0</b>	<b>7,032,414</b>	<b>20,396,136</b>
Receipts	819,451	60,993	1,996,751	0	167,903	3,445,024	<b>6,490,122</b>
Interfund Transfers	(667,751)	670,604	(2,853)	0	0	0	<b>(0)</b>
Disbursements	<u>(213,962)</u>	<u>(276,024)</u>	<u>(2,016,979)</u>	<u>0</u>	<u>(167,903)</u>	<u>0</u>	<b><u>(2,674,868)</u></b>
<b>Ending Balance (2003)</b>	<b>6,509,166</b>	<b>2,490,819</b>	<b>4,733,967</b>	<b>0</b>	<b>0</b>	<b>10,477,439</b>	<b>24,211,390</b>
Receipts	863,984	70,377	2,374,557	0	214,609	2,466,609	<b>5,990,135</b>
Interfund Transfers	(321,500)	320,936	0	0	0	564	<b>0</b>
Disbursements	<u>(185,493)</u>	<u>(317,214)</u>	<u>(2,247,676)</u>	<u>0</u>	<u>(214,609)</u>	<u>0</u>	<b><u>(2,964,992)</u></b>
<b>Ending Balance (2004)</b>	<b><u>\$6,866,157</u></b>	<b><u>\$2,564,918</u></b>	<b><u>\$4,860,847</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$12,944,611</u></b>	<b><u>\$27,236,533</u></b>

# Winthrop Retirement System

## STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Annuity Savings Fund:</b>				
Members Deductions	\$715,292	\$688,787	\$677,699	\$660,308
Transfers from other Systems	74,370	23,680	4,937	11,056
Member Make Up Payments and Redeposits	37,066	44,780	2,535	9,892
Investment Income Credited to Member Accounts	<u>37,256</u>	<u>62,204</u>	<u>82,687</u>	<u>104,125</u>
<b>Sub Total</b>	<b><u>863,984</u></b>	<b><u>819,451</u></b>	<b><u>767,857</u></b>	<b><u>785,381</u></b>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited Annuity Reserve Fund	<u>70,377</u>	<u>60,993</u>	<u>59,847</u>	<u>61,938</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	23,047	24,478	36,767	45,377
Received from Commonwealth for COLA and				
Survivor Benefits	60,961	115,425	196,194	83,275
Pension Fund Appropriation	<u>2,290,548</u>	<u>1,856,848</u>	<u>2,657,285</u>	<u>1,693,843</u>
<b>Sub Total</b>	<b><u>2,374,557</u></b>	<b><u>1,996,751</u></b>	<b><u>2,890,247</u></b>	<b><u>1,822,495</u></b>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account				
of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Expense Fund:</b>				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>214,609</u>	<u>167,903</u>	<u>188,491</u>	<u>208,953</u>
<b>Sub Total</b>	<b><u>214,609</u></b>	<b><u>167,903</u></b>	<b><u>188,491</u></b>	<b><u>208,953</u></b>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	0	0	0	6,026
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	532	2,465	781	0
Excess Investment Income	<u>2,466,077</u>	<u>3,442,560</u>	<u>(2,798,374)</u>	<u>(1,108,180)</u>
<b>Sub Total</b>	<b><u>2,466,609</u></b>	<b><u>3,445,024</u></b>	<b><u>(2,797,593)</u></b>	<b><u>(1,102,154)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$5,990,135</u></b>	<b><u>\$6,490,122</u></b>	<b><u>\$1,108,850</u></b>	<b><u>\$1,776,613</u></b>

# Winthrop Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$40,576	\$114,837	\$50,619	\$21,281
Transfers to other Systems	<u>144,917</u>	<u>99,125</u>	<u>39,722</u>	<u>227,383</u>
<b>Sub Total</b>	<b><u>185,493</u></b>	<b><u>213,962</u></b>	<b><u>90,341</u></b>	<b><u>248,664</u></b>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	317,214	276,024	271,539	289,412
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>317,214</u></b>	<b><u>276,024</u></b>	<b><u>271,539</u></b>	<b><u>289,412</u></b>
<b>Pension Fund:</b>				
Pensions Paid				
Regular Pension Payments	1,447,323	1,273,477	1,270,649	1,344,439
Survivorship Payments	121,872	112,821	111,517	100,316
Ordinary Disability Payments	13,348	12,808	12,448	24,144
Accidental Disability Payments	412,795	362,132	333,555	298,237
Accidental Death Payments	125,280	129,628	131,196	127,768
Section 101 Benefits	7,425	7,102	6,895	15,266
3 (8) (c) Reimbursements to Other Systems	97,224	97,645	96,545	98,595
State Reimbursable COLA's Paid	22,410	21,367	21,167	22,094
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>2,247,676</u></b>	<b><u>2,016,979</u></b>	<b><u>1,983,972</u></b>	<b><u>2,030,859</u></b>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	4,500	0	0	0
Salaries	39,243	53,446	41,606	38,624
Legal Expenses	4,058	1,976	893	371
Medical Expenses	0	974	790	375
Travel Expenses	2,401	0	1,716	597
Administrative Expenses	13,745	22,771	15,711	21,632
Furniture and Equipment	1,147		0	0
Management Fees	88,066	46,105	85,242	97,601
Custodial Fees	15,185	22,208	15,768	17,821
Consultant Fees	<u>46,263</u>	<u>20,424</u>	<u>26,765</u>	<u>31,933</u>
<b>Sub Total</b>	<b><u>214,609</u></b>	<b><u>167,903</u></b>	<b><u>188,491</u></b>	<b><u>208,953</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$2,964,992</u></b>	<b><u>\$2,674,868</u></b>	<b><u>\$2,534,344</u></b>	<b><u>\$2,777,887</u></b>

# Winthrop Retirement System

## INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Investment Income Received From:</b>				
Cash	\$37,630	\$22,009	\$7,897	\$3,724
Short Term Investments	3,032	3,503	6,606	22,891
Fixed Income	378,018	519,010	638,763	513,131
Equities	210,725	113,462	141,213	159,678
Pooled or Mutual Funds	<u>0</u>	<u>0</u>	<u>53,522</u>	<u>0</u>
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>629,405</u></b>	<b><u>657,985</u></b>	<b><u>848,001</u></b>	<b><u>699,423</u></b>
<b>Plus:</b>				
Increase in Amortization of Fixed Income Securities	0	0	0	0
Realized Gains	532,959	1,260,572	318,635	433,817
Unrealized Gains	1,817,731	2,081,737	333,147	236,441
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>49,485</u>	<u>47,566</u>	<u>71,835</u>	<u>87,606</u>
<b>Sub Total</b>	<b><u>2,400,174</u></b>	<b><u>3,389,876</u></b>	<b><u>723,617</u></b>	<b><u>757,864</u></b>
<b>Less:</b>				
Decrease in Amortization of Fixed Income Securities		0	0	0
Paid Accrued Interest on Fixed Income Securities	(3,745)	(39,732)	(12,374)	(39,497)
Realized Loss	(21,190)	(150,230)	(2,024,348)	(420,836)
Unrealized Loss	(168,761)	(52,404)	(1,939,464)	(1,608,316)
Custodial Fees Paid	-	-	-	-
Consultant Fees Paid	-	-	-	-
Management Fees Paid	-	-	-	-
Board Member Stipend	-	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(47,566)</u>	<u>(71,835)</u>	<u>(87,606)</u>	<u>(121,801)</u>
<b>Sub Total</b>	<b><u>(241,262)</u></b>	<b><u>(314,201)</u></b>	<b><u>(4,039,043)</u></b>	<b><u>(2,190,450)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>2,788,318</u></b>	<b><u>3,733,660</u></b>	<b><u>(2,467,426)</u></b>	<b><u>(733,163)</u></b>
<b>Income Required:</b>				
Annuity Savings Fund	37,256	62,204	82,687	104,125
Annuity Reserve Fund	70,377	60,993	59,847	61,938
Military Service Fund	0	0	0	0
Expense Fund	<u>214,609</u>	<u>167,903</u>	<u>188,491</u>	<u>208,953</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>322,241</u></b>	<b><u>291,100</u></b>	<b><u>331,025</u></b>	<b><u>375,016</u></b>
Net Investment Income	<u>2,788,318</u>	<u>3,733,660</u>	<u>(2,467,426)</u>	<u>(733,163)</u>
Less: Total Income Required	<u>322,241</u>	<u>291,100</u>	<u>331,025</u>	<u>375,016</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$2,466,077</u></b>	<b><u>\$3,442,560</u></b>	<b><u>(\$2,798,451)</u></b>	<b><u>(\$1,108,179)</u></b>

## **Winthrop Retirement System**

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

	<b>MARKET VALUE</b>	<b>PERCENTAGE OF TOTAL ASSETS</b>	<b>PERCENTAGE ALLOWED*</b>
Cash	\$4,964,914	18.26%	100
Short Term	3,911,089	14.39%	100
Fixed Income	4,312,231	15.86%	40 - 80
Equities	13,994,937	51.48%	40
PRIT Cash Fund		0.00%	
PRIT Core Fund		<u>0.00%</u>	100
<b>GRAND TOTALS</b>	<b><u>\$27,183,171</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, 2004, the rate of return for the investments of the Winthrop Retirement System was 12.16%. For the five-year period ending December 31, 2004, the rate of return for the investments of the Winthrop Retirement System averaged 4.55%. For the twenty-year-year period ending December 31, 2004, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Winthrop Retirement System was 9.86%.

## **Winthrop Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

The Winthrop Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 13, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Winthrop Retirement Board's large cap equity mandate with Aeltus Investment Management is being transferred from the existing Growth Equity Commingled Fund to the Growth Equity Trust Fund. The former fund was created as a vehicle for PERAC systems, but Winthrop is the only system remaining in the fund at this time. Thus, operational and cost efficiencies can be achieved by investing in the latter fund. There is no change in strategy or benchmark.

September 27, 2002

16.08

The Winthrop Retirement Board is authorized to temporarily invest the proceeds of its terminated large cap value mandate with Cutler & Company into the State Street Global Advisors Russell 1000 Value Index Fund. The Board's investment with SSGA is authorized to extend through January 31, 2003.

# **Winthrop Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all Winthrop Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Winthrop Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.



## **Winthrop Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS**

The Winthrop Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

July 19, 1999:

**DEFINITION OF A FULL YEAR:** A full year of employment shall be credited with a full year of creditable service. Work of less than a full year shall be credited pro-rata to the appropriate full year. A full year of employment shall be deemed to be year of work at a job in which no other hours in a week are available to perform said job.

# **Winthrop Retirement System**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

**ELIGIBILITY FOR MEMBERSHIP:** Full Time (35 or more hours per week) Employees who work at least 35 hours per week will become members of the retirement system as of their date of employment and will be deemed full time employees. Part time (24 to 34.999 hours per week) Employees who work 24 to 34.999 hours per week after six months of employment will become members of the retirement system and will be deemed part time employees.

This Board shall have full jurisdiction to determine eligibility of employees for membership in all cases involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service. Work of a seasonal nature shall be credited as one year of service for at least seven calendar months of work.

**ENROLLMENT:** Every employee who is eligible to become a member of the Winthrop Retirement System must complete the necessary enrollment and beneficiary forms, including a birth certificate and, if a veteran of the armed forces, a military service discharge or its equivalent. Elected officials may enroll within 90 days after the date of assuming office. If they do not enroll during that period, they waive eligibility for membership in the system for that term of office. All references to full time employment or a full year or similar terms in these regulations shall be deemed to be governed by their definitions.

#### **CREDIT FOR PART-TIME SERVICE FOR WORK WHILE A MEMBER IN SERVICE:**

Full Year Credit: Part-time work shall be credited as a full year of service for a full year of work, work of less than a full year shall be credited pro-rata.

**CREDIT FOR PART-TIME SERVICE PRIOR TO MEMBERSHIP:** Within one year of becoming a member of the Winthrop Retirement System, each person shall file a statement detailing all service for which he claims credit towards retirement in this system. 1/2 credit shall be allowed for buy-back of less than 24 hours per week for a full year.

**BENEFITS TO CHILDREN OF RETIREES:** Benefits will be paid in accordance with G.L. c. 32 secs. 7, 9, and 12 option d and 12B. Each year by September 1, proof of enrollment in an accredited educational institution must be presented for every child over age 18 in order to receive additional benefits as provided by law.

December 17, 2003

A full year for a Winthrop School Department employee who is a member of the Winthrop retirement System shall consist of the school year of approximately 180 workdays. For all other employee-members of the Winthrop Retirement System, a full year of creditable service shall be based upon the calendar year.

August 23, 2003

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4). (Regulation available upon written request)



## Winthrop Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2003.

The actuarial liability for active members was	\$19,397,699
The actuarial liability for retired and inactive members was	<u>18,830,328</u>
The total actuarial liability was	<b>38,228,027</b>
System assets as of that date were	<u>22,435,749</u>
The unfunded actuarial liability was	<b><u>\$15,792,278</u></b>
 The ratio of system's assets to total actuarial liability was	 58.7%
As of that date the total covered employee payroll was	\$8,191,365

The normal cost for employees on that date was 7.80% of payroll

The normal cost for the employer was 6.60% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.25% per annum  
**Rate of Salary Increase:** varies based on service and group

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2003	\$22,435,749	\$38,228,027	\$15,792,278	58.7%	\$8,191,365	192.79%
1/1/2001	\$22,822,904	\$34,578,145	\$11,755,241	66.0%	\$7,223,140	162.74%
1/1/1999	\$22,647,531	\$31,163,960	\$8,516,429	72.7%	\$6,862,711	124.10%

## Winthrop Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Superannuation	6	3	*	1	0	*	1	1	6	12
Ordinary Disability	0	0	*	0	0	*	0	0	0	0
Accidental Disability	0	0	*	1	0	*	0	0	1	0
<b>Total Retirements</b>	<b>6</b>	<b>3</b>	<b>*</b>	<b>2</b>	<b>0</b>	<b>*</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>12</b>
 Total Retirees, Beneficiaries and Survivors	 192	 192	 190	 192	 178	 169	 166	 161	 168	 177
 Total Active Members	 205	 235	 227	 252	 255	 263	 258	 257	 249	 265
<b>Pension Payments</b>										
Superannuation	\$1,300,081	\$1,374,925	*	\$1,420,148	\$1,404,500	\$1,388,056	\$1,344,439	\$1,270,649	\$1,273,477	\$1,447,323
Survivor/Beneficiary Payments	58,951	72,022	*	47,697	46,345	60,611	100,316	111,517	112,821	121,872
Ordinary Disability	19,966	20,256	*	75,198	27,507	21,436	24,145	12,448	12,808	13,348
Accidental Disability	342,004	287,422	*	30,629	294,629	297,413	298,237	333,555	362,132	412,795
Other	*	*	*	62,761	107,060	*	263,722	255,803	255,741	252,339
<b>Total Payments for Year</b>	<b><u>\$1,721,002</u></b>	<b><u>\$1,754,625</u></b>	<b><u>\$1,612,744</u></b>	<b><u>\$1,636,433</u></b>	<b><u>\$1,880,041</u></b>	<b><u>\$1,767,516</u></b>	<b><u>\$2,030,859</u></b>	<b><u>\$1,983,972</u></b>	<b><u>\$2,016,979</u></b>	<b><u>\$2,247,676</u></b>

\* Data Unavailable

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